

Message Text

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ACTION EB-06

INFO OCT-01 ISO-00 AF-04 ARA-06 EA-06 EUR-08 NEA-06 RSC-01

SWF-01 AID-05 CEA-01 CIAE-00 COME-00 FRB-01 INR-05

NSAE-00 CIEP-01 SP-02 STR-01 TRSE-00 LAB-01 SIL-01

SAM-01 OMB-01 L-01 SS-15 NSC-05 H-01 PA-01 PRS-01

USIA-06 IO-04 TAR-01 /094 W
----- 108758

R 241722Z OCT 74

FM AMEMBASSY LONDON
TO SECSTATE WASHDC 5095
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY COPENHAGEN
AMEMBASSY DUBLIN
AMEMBASSY LUXEMBOURG
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY THE HAGUE
AMEMBASSY CANBERRA
AMEMBASSY GEORGETOWN
USMISSION EC BRUSSELS
USMISSION OECD PARIS
USDA/FAS WASHDC

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E.O. 11652: N/A

TAGS: EAGR, EEC, UK

SUBJ: SUGAR: UK REACTION TO EC SUBSIDIZATION SCHEME,
GENERAL APPROBATION WITH RESERVATIONS

REF: (A) EC BRUSSELS 8274, (B) LONDON 12995

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1. SUMMARY. REACTION TO THE SUGAR SUBSIDIZATION SCHEME AGREED ON IN LUXEMBOURG OCTOBER 22 HAS BEEN INITIALLY QUITE FAVORABLE, BUT INDUSTRY IS CONCERNED ABOUT LONG-TERM SUPPLY NEEDS, MOSTLY FOR RE-EXPORT. AGREEMENT SHOULD BOLSTER "PRO-MARKETEERS" AND ENABLE THE BRITISH HOUSEWIFE TO GET CHEAP SUGAR FOR A SHORT WHILE LONGER. ESSENTIALLY, HOWEVER, AS THE UK MINISTRY OF AGRICULTURE RECOGNIZES, THE AGREEMENT IS A SHORT-TERM, PATCHWORK ONE. THE SUGAR PROBLEM WILL BE AROUND TO VEX THE UK AND US ALL FOR SOME TIME YET. END SUMMARY.

2. FIRST REACTION TO THE EC SUBSIDIZATION SCHEME FOR SUGAR IMPORTS AGREED ON BY THE EC COUNCIL OF AGMINS IN LUXEMBOURG, OCTOBER 21-22 WAS HIGHLY FAVORABLE, BUT AFTER A DAY OF MULLING IT OVER, SOME SECOND THOUGHTS ARE BEING EXPRESSED. MINAG OFFICIAL EXPRESSED TO THE EMBASSY LATE OCTOBER 23 SATISFACTION WITH THE SCHEME. THIS OFFICIAL DESCRIBED THE SUBSIDIZATION PLAN ESSENTIALLY AS GIVEN IN PARAS 5 AND 6 OF REF (A) BUT WITH SOME DIFFERENCE IN EMPHASIS: THE AGREEMENT IN THE MINISTRY'S VIEW IS BASICALLY AN OPEN-ENDED DEFICIT SUPPLY COMMITMENT FOR 1975, WITH DETAILS NAILED DOWN FOR ONLY THE FIRST 200,000 TON INSTALLMENT OF A TOTAL UK 1975 DOMESTIC DEFICIT ESTIMATE OF ABOUT 600,000 TONS. THIS INITIAL INSTALLMENT WILL BE SOLD TO THE UK AT THE EC THRESHOLD PRICE (CURRENTLY 156 POUNDS STERLING PER TON, REFINED; 136 POUNDS STERLING PER TON, RAW). IT IS ANTICIPATED THAT TENDERS WILL BE LET ON THE WORLD MARKET (SINCE CONTINENT SOURCES DO NOT HAVE ADEQUATE BEET SUGAR SUPPLIES) IN NOVEMBER. ONCE THIS LOT HAS BEEN RECEIVED, THE EC COUNCIL WILL AGAIN MEET TO REVIEW PROGRESS AND DETERMINE TERMS AND CONDITIONS FOR FILLING THE REMAINDER OF THE DEFICIT. THE MINAG OFFICIAL ESTIMATED THAT THE TOTAL EC DEFICIT--MOSTLY ITALY'S AFTER THE UK--WOULD AMOUNT TO ABOUT 700,000 TONS, ALL OF WHICH PRESUMABLY WOULD BE PURCHASED ON THE FREE MARKET (PRICE NOW SLIGHTLY OVER 400 POUNDS STERLING PER TON, SPOT, LONDON MARKET).
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3. THE MINISTRY OFFICIAL FRANKLY RECOGNIZED THAT THE LUXEMBOURG AGREEMENT IS ESSENTIALLY SHORT-TERM, PATCHWORK, BUT CLAIMED THIS IS EXACTLY WHAT THE MINISTRY WANTED. OVER THE LONGER TERM THEY EXPECT INCREASING BEET SUGAR PRODUCTION (WHICH LUXEMBOURG AGREEMENT CONTEMPLATES--PARA 3 REF (A)), AND CONCLUSION OF AN ARRANGEMENT BETWEEN THE EC AND DEVELOPING COMMONWEALTH

AND ASSOCIATED STATES' SUGAR PRODUCERS FOR SUPPLY OF
SOME 1.4 MILLION TONS ANNUALLY, WILL PROVIDE A MORE LASTING
SOLUTION.

4. MEDIA INTEREST LEADING UP TO AND THROUGH THE
LUXEMBOURG MEETING HAS BEEN CONSIDERABLE, WITH UK
MINISTER OF AGRICULTURE PEART SOMETIMES DEPICTED AS
SOMETHING OF A MINOR STATESMAN, STERN DEFENDER OF UK
INTERESTS, AND RELUCTANT ALLY OF THE PRO-MARKETEERS.

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FM AMEMBASSY LONDON

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THE FINANCIAL TIMES, WHICH HAS DEVOTED CONSIDERABLE SPACE TO THE ISSUE, EDITORIALIZED OCTOBER 23 THAT THE AGREEMENT WAS HIGHLY SATISFACTORY FROM A NUMBER OF POINTS OF VIEW, INCLUDING (A) ASSURING SUPPLY AT A PRICE EVEN BELOW THAT SUPPOSEDLY OFFERED BY AUSTRALIA, (B) TURNING EC COMMON AGRICULTURAL POLICY AROUND, LIMITED OFFICIAL USE

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FOR THE FIRST TIME GIVING THE CONSUMER INTEREST PRIMACY, AND (C) WEAKENING ANTI-MARKET ARGUMENTS. RE POINT (C), PEART HAS FOUND SUCH STATEMENTS EMBARRASSING SO HE HAS BEEN CAREFUL TO EMPHASIZE THAT HE IS STILL AN "AGNOSTIC" ON THE MARKET ISSUE AND THAT HIS ONLY INTEREST IS OBTAINING SUGAR AT A REASONABLE PRICE FOR THE BRITISH HOUSEWIFE.

5. SOME RESERVATIONS ABOUT THE SCHEME, HOWEVER, WERE QUICK IN COMING. THESE HAVE COME FROM THE REFINING INDUSTRY AND REVOLVE PRIMARILY AROUND THE QUESTION OF UNCERTAINTY OF SUPPLY. THE GENERAL AND MUNICIPAL WORKERS UNION, WHICH REPRESENTS THE MAJORITY OF WORKERS IN THE BRITISH CANE REFINERIES, REPORTEDLY DISMISSED THE AGREEMENT AS "ECONOMIC NONSENSE." ON MANAGEMENT'S SIDE, REPORTEDLY THERE IS UNCERTAINTY ABOUT JUST WHAT THE AGREEMENT MEANS FOR THEM AS WELL.

6. COMMENT. DESPITE THE MINISTRY'S ASSURANCE THAT PEART ACHIEVED EXACTLY WHAT HE WANTED TO IN LUXEMBOURG, THE UK IS STILL A LONG WAY OFF FROM "SECURING SUGAR IN OUR TIME" AND SUGAR PROMISES TO BE A VEXING PROBLEM FOR THE UK--AND US ALL--FOR SOMETIME TO COME. NOT THE LEAST OF PROBLEMS IS THE QUESTION OF JUST WHAT THE FUTURE WILL HOLD FOR THE UK'S LARGE REFINING INDUSTRY WHICH IS IMPORTANTLY ENGAGED IN REFINING CANE SUGAR FOR RE-EXPORT. IN THIS REGARD WHAT HAPPENS TO AUSTRALIAN SUGAR IS RELEVANT, AND THE POSSIBILITY REMAINS THAT LOCAL INDUSTRY WILL CONTINUE TO PRESS FOR BILATERAL ARRANGEMENTS OUTSIDE THE EC FRAMEWORK TO FILL ITS NEEDS.

7. DESPITE SUCH QUESTION MARKS, WE THINK THE AGREEMENT ON BALANCE WILL TEND TO SUPPORT THE PRO-MARKETEERS (WHETHER PEART HIMSELF WISHES IT OR NOT) AND FOR A SHORT TIME AT LEAST SUGAR IN PLENTIFUL SUPPLY AT LOW RETAIL PRICES MIGHT REAPPEAR ON MARKET SHELVES.

STILL, AS PEART RECOGNIZES, IT IS NOT REALISTIC TO
EXPECT THE BRITISH HOUSEWIFE TO HAVE SUGAR INDEFINITELY
AT A RETAIL PRICE OF ABOUT HALF THE CURRENT LONDON
MARKET SPOT PRICE. STILL ANOTHER QUESTION IS WHAT
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THE TRUE COST TO THE COMMUNITY OF THE SUBSIDIZATION
SCHEME WILL BE AND WHETHER THE OTHER MEMBERS WILL
BE WILLING TO BEAR THIS COST.

ANNENBERG

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